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RELATIONS WITH CANADA

by

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	PAGE
CANADA'S ELECTION AND THE UNITED STATES	385
American-Canadian Relations in the Campaign	385
Reverberations of the Herbert Norman Affair	386
OUTSTANDING PROBLEMS IN TRADE RELATIONS	387
Extent and Character of U.S.-Canadian Trade	388
Imbalance in Canada's Trade With United States	389
Canadian Objections to American Tariff Policy	390
Canada and the Disposal of U.S. Crop Surpluses	392
GROWTH OF AMERICAN INVESTMENT IN CANADA	393
Extensive U.S. Participation in Canadian Industry	394
Proposed Rules of Practice for Foreign Investors	396
Friction Over St. Lawrence and Other Waterways	397
MUTUAL INTERESTS IN INTERNATIONAL AFFAIRS	398
Cooperation in the Defense of North America	399
Policy Differences Over Communist China and Suez	401

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RELATIONS WITH CANADA

CANADA'S parliamentary election of June 10 comes at a time when Canadian-American relations are under close scrutiny in both Canada and the United States. The ire aroused north of the border by the Norman affair has subsided, but Canada's traditional sensitivity to policies and actions of her powerful neighbor has been sharpened by other developments. The dominion's large and growing trade deficit with the United States, and increasing control of Canadian resources by American investors, have revived long-standing Canadian apprehensions of economic domination by this country.

Appeals to the nationalistic sentiments of Canadians are being heard in the current electoral campaign. The new leader of the Progressive Conservative Party, John Diefenbaker,¹ has taxed the Liberal government of Prime Minister Louis St. Laurent with showing undue deference to Washington in foreign affairs—a charge denied by Liberals. Relations with the United States are less an issue of partisan debate, however, than they are a matter of general concern. The concept of independence within interdependence is shared by Canadians of all parties, and there is little evidence that a Conservative government would pursue a substantially different goal in Canadian-American relations.

As a practical matter, there appears to be little chance that the Conservatives will succeed in breaking the Liberal Party's 22-year hold on the federal government at Ottawa. Liberals held 168 of the 265 seats in the House of Commons when it was dissolved Apr. 12, while Conservatives held only 50 seats.² Conservatives are given some chance of pick-

¹ Diefenbaker, 61, a member of Parliament from Saskatchewan, succeeded George Drew, Conservative leader since 1948, on Dec. 14, 1956.

² The remaining 47 seats were divided as follows: Cooperative Commonwealth Federation (Socialists), 22; Social Credit, 15; Independents, 3; vacancies, 7. Neither the Socialists, whose strength is confined to the province of Saskatchewan, nor the Social Crediters, who are concentrated in Alberta and British Columbia, are expected to make significant gains.

Editorial Research Reports

ing up Liberal seats in Ontario, which with French-speaking Quebec has furnished the great bulk of Liberal support. But the wide popularity of the 75-year-old Prime Minister, coupled with the fact that Canada is prospering under a booming economy, are expected to give the Liberals a working if diminished majority in Parliament when the votes are counted.

Continuance of a Liberal regime in Ottawa carries no assurance, however, that the two nations with the "world's longest undefended border" will continue to find mutually acceptable answers to the important questions arising between them. The disparity in bargaining power between the United States, with a population of 170 million persons and a \$425-billion gross national product, and Canada, with 16 million people and a gross national product of \$30 billion, holds the makings of sharp disagreement and damaging resentment in both countries. Canadians, who are as anxious to maintain harmonious relations with the United States as to protect what they conceive to be their national interests, feel handicapped by a widespread indifference among Americans to Canada's problems and aspirations.

REVERBERATIONS OF THE HERBERT NORMAN AFFAIR

Canadians were affronted when the U.S. Senate Internal Security Subcommittee released testimony, Mar. 14, containing allegations that Canada's ambassador to Egypt, E. Herbert Norman, had been a Communist. In a note to the State Department on Mar. 18, protesting the subcommittee's action in "the strongest terms," the Canadian government said that similar allegations against Norman had been investigated and disposed of when first aired in 1951.

Canadian resentment increased when Ambassador Norman committed suicide, Apr. 4, in Cairo—"killed by slander" according to the Canadian press. Nor were Canadians mollified when the Department of State pointed out; in its reply of Apr. 10, that the Executive Branch had no jurisdiction over actions of Congress. Canada's Minister for External Affairs, Lester B. Pearson, notified the State Department the same day that unless the Washington government gave assurance that security information furnished by Canada to American authorities would not be passed outside the Executive Branch, Canada "must reserve the right in the future not to supply" such information to any U.S. agency.

The Norman case took a new turn, however, when Pearson revealed on Apr. 12 that the late ambassador had in fact had Communist sympathies in his student days. Conservative Leader Diefenbaker promptly attacked Pearson for lack of candor. The *Toronto Globe and Mail*, severe critic of the Internal Security Subcommittee, wrote: "It is quite possible that it was this lack of forthright report by his own government, far more than irresponsible slanders in a foreign capital, which finally broke Herbert Norman's spirit." Pearson and the Liberal government thus attracted some of the national resentment which initially had been directed exclusively against the United States.³

Outstanding Problems in Trade Relations

SENSITIVITY of Canadians to American trade policy dates back to 1866, when the United States terminated an 1854 treaty permitting free entry of Canadian products on a reciprocal basis. The British provinces in North America were then on the verge of federating into a dominion, spurred on in part by fears of expansionist tendencies in the United States and by widespread talk in this country of annexing Canada.⁴

The geographical propinquity of the two nations has led one observer to suggest that "Under a different political history the regions of Canada might have been simply the extended northern frontiers of the United States."⁵ As matters developed, the American tariff became a significant element in the economic life of the dominion.

The fact that it was possible to erect a tariff barrier between the States and Canada enabled the Americans to insist upon taking Canadian products in the rawest possible state, and they have so insisted for the best part of a hundred years.

Much processing which could advantageously be done at the site of the raw material production has thereby been prevented in

³ However the issue may affect the outcome of the June 10 election, it is expected to hurt Pearson's prospects as a contender for leadership of the Liberal Party when St. Laurent steps down.

⁴ The Dominion of Canada came into existence on July 1, 1867. According to a Canadian historian, "The real significance of the United States in this formative era of Canadian history was that it supplied outside pressure, that it played, *mutatis mutandis*, the part of George III to the provinces' George Washington; not that it began but that it ended reciprocity."—G. P. de T. Glazebrook, *A Short History of Canada* (1950), p. 145.

⁵ W. A. Mackintosh, "The Canadian Economy and Its Competitors," *Foreign Affairs*, October 1955, p. 117.

Editorial Research Reports

Canada and transferred to American points, keeping the Canadian area in a relatively pioneering condition . . . It has remained a consistently effective policy and has strongly influenced the distribution of population between the two countries.⁶

Tariffs on articles in Canadian-American commerce reached their highest point in the early years of the Great Depression. American duty increases imposed by the Hawley-Smoot Act of 1930 were followed by Canadian increases when the system of empire preferences was instituted under the Ottawa agreements of 1932. The upward trend was reversed after the first New Deal Congress delegated tariff-making powers to the President under the reciprocal trade agreements policy fathered by Secretary of State Hull. Concessions granted by both countries in an initial trade agreement, signed late in 1935, were extended by a second bilateral agreement in 1938. The process was carried further, after World War II, when the United States and Canada negotiated additional tariff concessions as a part of the General Agreement on Tariffs and Trade (GATT), signed at Geneva in 1947 and amplified at several subsequent tariff-bargaining conferences.

The progressive reduction of tariff rates, together with the rapid economic growth of both countries in the past decade, has contributed to a phenomenal increase in trade. The exchange of goods across the 3,986-mile border today surpasses that between any other two nations. The United States purchased nearly \$3 billion worth of Canadian products in 1956; Canada bought almost \$4 billion worth of American goods. As in the past, Canada's exports to the United States consisted largely of natural and semi-finished products, while machinery, vehicles, and petroleum products made up the bulk of Canada's purchases from this country.

Canada for many years has supplied most of the newsprint, nickel, and asbestos consumed in the United States. Canada has supplied also 15 per cent of total U.S. consumption of aluminum, 9 per cent of softwood lumber, 28 per cent of zinc, 7 per cent of copper, and more than 10 per cent of lead. About \$500 million of Canada's exports to the United States last year represented resources only recently developed in the dominion—iron ore, oil and natural gas, and uranium oxide.

⁶ Bernard K. Sandwell, "The Canadian People," in G. P. Gilmour, ed., *Canada's Tomorrow* (1954), p. 14.

Relations With Canada

U.S.-CANADIAN TRADE, 1939 AND 1948-1956
(in millions of dollars)

Year	Exports to Canada*	Imports from Canada	Excess of U.S. exports
1939	498	349	149
1948	1,944	1,593	351
1949	1,959	1,551	408
1950	1,995	1,960	35
1951	2,588	2,275	313
1952	2,796	2,386	410
1953	2,996	2,462	534
1954	2,767	2,377	390
1955	3,206	2,651	555
1956	3,972†	2,893†	1,079†

* Excluding special categories not reported by countries for security reasons. † Preliminary.

The extent of the American stake in Canadian markets, is emphasized by the fact that in 1954 Brooklyn sold more to Canada than did Argentina, Detroit more than Brazil, and Chicago almost as much as West Germany. The study which unearthed those facts traced to their origin only about one-third of U.S. exports to Canada; yet only one of the 48 states (South Dakota) was not represented among the exports covered. "Many firms replied that goods moved easily enough between the two countries to allow Canadian sales to be treated like domestic sales."

IMBALANCE IN CANADA'S TRADE WITH UNITED STATES

Canadians, on the other hand, are acutely conscious of their exports to and imports from the United States. Relative to the size of their respective economies, foreign trade is far more important to the livelihood of Canada. Exports currently amount to 16 per cent of Canada's gross national product while imports are equal to nearly 18 per cent. In contrast, U.S. exports make up less than 4 per cent of this country's gross national product and imports equal only about 3 per cent.

No less important to Canada is the preponderance of her trade with the United States. Sales to this country, which averaged 35 per cent of Canada's exports in the period 1935-39, accounted for 60 per cent of last year's exports of \$4.9 billion. And purchases from the United States, which averaged 60 per cent of Canada's imports in the

* Chamber of Commerce of the United States, *Our Trade With Canada* (1956), digest of a survey conducted by the Battelle Memorial Institute of Columbus, Ohio.

Editorial Research Reports

earlier period, added up to about 73 per cent of 1956 imports of \$5.7 billion.

American trade with Canada, although exceeding that with any other country, makes up a smaller share of the total trade of this country. Exports to Canada increased from 15 per cent of total exports in the period 1936-38 to about 21 per cent last year, while imports from Canada rose over the same period from 13 per cent to 23 per cent of total U.S. imports.

The increasing importance of Canadian-American trade as a proportion of each country's total foreign trade has been accompanied by another significant development: Canada always has run an unfavorable balance of trade with the United States, in part because her raw and semi-finished exports hold less value than do the manufactured products which she imports. The deficit in her current account with the United States has been met with the help of export surpluses in other accounts and the net inflow of capital from across the border.

The widening gap between Canada's exports to and imports from the United States has worried Canadians. The excess of imports over exports, which averaged \$87 million for the years 1935-39, rose to \$534 million in 1953, and last year exceeded \$1 billion. The danger of this trend is beginning to be recognized by Americans. According to the U.S. Chamber of Commerce:

It is clear that if Canada's dollar earnings from sales to the United States or otherwise do not keep up with her dollar expenditures these dollar expenditures will have to come down, whether through government actions or through the working of economic forces. That would mean, in practice, a cut in Canada's purchases from the United States. It is in our best interest, if we want to avoid this, to see that our purchases from Canada do not fall too far behind Canada's purchases from us.²

Canadians do not relish the idea of cutting down their imports from the United States. The alternative, as they see it, is to increase their American sales.

CANADIAN OBJECTIONS TO AMERICAN TARIFF POLICY

Despite liberalization of U.S. trade policy, Canadians still regard the American tariff and other protective devices as unduly hampering their sales in this country. In

² *Ibid.*, p. 4.

Relations With Canada

1955, when 53 per cent of all U.S. imports for consumption entered duty free, some 60 per cent of imports from Canada paid no duty. This above-average ratio of duty-free imports, however, merely reflected the high proportion of raw products, on many of which there is no tariff, in the shipments from Canada.

Canada's case against U.S. trade policy was put in the following terms in a recent off-the-record talk by a senior Canadian trade official:

There are still rates of duty in the United States tariff which, to Canadians, seem unreasonably high. The efforts of the Canadian Government to negotiate some of these rates in the latest round of tariff negotiations were seriously limited by the 15 per cent limit of the Reciprocal Trade Agreements Act . . .

The continuance of United States import restrictions on a number of agricultural products, including items which have been the subject of reciprocal tariff concessions, remains a serious bone of contention in Canada . . . Similarly, the many applications for escape-clause action on particular tariff items and the continuous round of hearings under the United States Tariff Commission are most unnerving for the Canadian trader and lead him to question whether it is worth while trying to build up a market south of the border . . .

In the light of the predominant position of the United States in shaping the course of action in the field of international trade, Canadians wonder sometimes if the existence of such an escape clause is in fact more of a threat to the security of the United States and the entire free world than the developments which it has been designed to guard against.⁹

The escape clause, mandatory in all trade agreements since 1951, enables the President to withdraw or modify tariff concessions found by the Tariff Commission to have proved injurious to domestic producers.¹⁰ Former U.S. Ambassador to Canada R. Douglas Stuart, answering Canadian complaints about the escape clause, pointed out in an address at Winnipeg, Oct. 26, 1955, that applications for escape-clause relief had been made with respect to only 61 of the 3,000 commodities on which the United States had granted tariff concessions since 1947, and that relief had been granted in only six cases.

Canadian agitation over the escape clause was heightened last October when the U.S. Tariff Commission found that a substantial increase in duties on groundfish fillets was

⁹ From text made available by the Canadian embassy in Washington. The trade official was not identified.

¹⁰ See "Foreign Trade and the National Interest," *E.R.R.*, Vol. II 1954, pp. 530-531.

Editorial Research Reports

needed to prevent injury to the domestic industry. Canada, as the principal foreign supplier of this product, sold \$18 million worth to the United States in 1955. Worries of the Canadians proved premature, however, for President Eisenhower decided against a duty increase, Dec. 10, on the ground that the "nations concerned are not only our close friends, but their economic strength is of strategic importance to us in the continuing struggle against the menace of world Communism."¹¹ New Canadian protests over U.S. tariff policy may be anticipated in connection with a recently formulated administration program to aid the domestic metal mining industry; the program is reported to call for excise taxes on imports of lead and zinc. Canada is one of this country's chief suppliers of those metals.

CANADA AND THE DISPOSAL OF U.S. CROP SURPLUSES

Washington's efforts to find foreign takers for a part of the mountainous agricultural surpluses accumulated under the farm price support program are a source of current concern in the dominion. Canada ranks next to the United States in the free world in production of wheat, and the two countries are strong competitors in foreign wheat markets.

Although wheat acreage in both countries has declined in recent years, stocks have increased and now stand at about 830 million bushels in Canada and 975 million bushels in the United States. Canadians say that these figures are misleading, because U.S. domestic consumption amounts to 610 million bushels a year while Canadian consumption is only 160 million bushels. Allowing for a reasonable reserve, the Canadians estimate that the U.S. carryover at the end of this crop year will represent less than one year's domestic needs, while Canada's carryover will exceed three years' requirements. The Canadian embassy's commercial counselor, R. G. C. Smith, accordingly told an audience at Toledo, Oct. 24, 1956, that the American wheat disposal problem was "nothing, absolutely nothing, compared with our position."

Weighed down by their own surplus of wheat, Canadians feel that U.S. sales of wheat in exchange for foreign cur-

¹¹ The President's statement applied with special force to Iceland, whose exports of \$4 million worth of groundfish fillets to the United States in 1955 formed a large part of that country's total exports. The tariff decision was interpreted as a *quid pro quo* for Iceland's agreement not to press for removal of American troops stationed there. See "Future of Overseas Bases," *E.R.E.*, Vol. I 1957, pp. 66-67.

Relations With Canada

rencies or under barter agreements constitute unfair competition and deprive Canada of potential dollar sales.¹² Canada sold 309 million bushels of wheat abroad in 1956, but sales of only 260 million bushels are looked for this year. American wheat exports, on the other hand, are expected to climb from last year's 345 million bushels to 475 million bushels this year.

Canada has been particularly disturbed by the pending American aid agreement with Poland. Still under negotiation, the agreement reportedly will provide for sale of 500,000 tons (about 18.5 million bushels) of U.S. wheat to Poland for Polish zlotys. Last year, for the first time, Canada sold Poland about 12.8 million bushels of wheat, for \$25 million, and obtained an agreement to supply about 11 million bushels this year and half as much next year. Canadians fear not only that they may lose their share of the Polish wheat market to the United States, but also that the loss may extend to other Iron Curtain countries which bought almost 40 million bushels of Canadian wheat last year.

The Canadian attitude was summed up in a speech, Mar. 4, in Denver by George R. Paterson, a Canadian trade official: "Canadian producers cannot afford to compete with the United States Treasury, and the Canadian taxpayer could not bear the burden that competitive subsidization of Canadian exports would involve. As a result, the United States, by these methods, is not only exporting surplus wheat—it is exporting its agricultural surplus problems to Canada." Canadians attending a meeting of the International Federation of Agricultural Producers at Lafayette, Ind., May 22, called the American policy of selling farm products for foreign currencies "a give-away."

Growth of American Investment in Canada

GROWTH of American investment in Canada since World War II has provoked a running debate in the dominion. When American interests set out to develop the iron deposits of northern Quebec and Labrador, former Conservative Leader George Drew charged that Canadian resources,

¹² See "Problem of Farm Surpluses," *E.R.E.*, Vol. II 1956, pp. 471-486.

Editorial Research Reports

like Minnesota's Mesabi range, would be depleted. Drew said: "We are not going to be hewers of wood, drawers of water, and diggers of holes for any other country." Canada's Liberals, on the other hand, have defended the heavy flow of American capital as making an important contribution to the nation's economic growth.

The need for capital is not disputed. Although Canada is larger in area than the United States,¹³ most of its 16 million people live within 200 miles of the American border. Great mineral resources still lie untapped in the inhospitable regions to the north; their development and exploitation require larger amounts of capital than Canadians alone can provide. Canada's position in some respects is similar to that of the United States before 1900, when British and other foreign capital gave stimulus to the rising American economy.

In the 20 years from 1926 to 1946, American investment in Canada rose from \$3.2 billion to \$5.2 billion; in the past decade, that figure has doubled to more than \$11 billion and now constitutes one-third of total U.S. private investment abroad. Since total foreign investment in Canada amounts to only about \$13.5 billion, the American share is preponderant.

The extensive growth of American investment in the dominion in recent years has had a sharp economic impact. It has been responsible in part for Canada's greatly increased imports from the United States.¹⁴ The flow of American capital has contributed also to the strength of the Canadian dollar, which on May 28 sold close to \$1.05—the highest premium over the U.S. dollar since 1933. However, Canadians have been disturbed by the extent to which American control has accompanied U.S. investment in Canadian enterprises.

EXTENSIVE U.S. PARTICIPATION IN CANADIAN INDUSTRY

Great Britain's substantial 19th century investment in the United States was largely in the form of loans evidenced by bonds and other securities which could be and

¹³ Canada, 9,945,774 square miles; United States, 3,622,387 square miles.

¹⁴ According to Louis Rasminsky, Deputy Governor of the Bank of Canada, who said in an address on Nov. 26, 1956, to the National Foreign Trade Convention: "Between the first half of 1955 and the first half of 1956, when our total imports went up by almost 30 per cent, imports of investment goods rose by as much as 43 per cent while consumer goods were up only 13 per cent. . . . Direct investment should therefore be regarded, in a sense, as a cause of the current account deficit rather than as a means of covering it."

Relations With Canada

were repatriated at maturity. But about \$7 billion of the U.S. capital in Canada is in the form of more or less permanent direct investment, which is not ordinarily repatriated and which tends to grow through reinvestment of earnings. A Canadian Royal Commission recently stated:

The fact that a large part of non-resident equity investment in Canadian industry is in the form of wholly-owned subsidiaries and branches means that Canadians are unable to participate financially even though the growth in incomes and the consequent increase in domestic savings will make it increasingly possible for them to do so . . .

Canada needs and wants foreign capital, but we should like to see more of it invested in such instruments as bonds and mortgages. And we should like to see that part of it which is invested in the resource and manufacturing industries associated in some degree with Canadian capital.¹⁵

Latest Canadian estimates indicate that Americans own more than three-fourths of Canada's oil and natural gas industries, over one-half of her mining industries, and more than two-fifths of her manufacturing industries. A year-old study by the Dominion Bureau of Statistics showed that U.S.-controlled companies produced almost all of Canada's automobiles and accounted for well over one-half of Canadian smelting and refining of non-ferrous metals, petroleum refining, rubber products, and motor vehicle parts. Even the Canadian newsprint industry, which exports most of its product to this country and has been criticized severely by American publishers for its price-increases, is nearly one-third owned by Americans.¹⁶

Last summer Canadians were in an uproar over the Liberal government's proposal to lend \$80 million to Trans-Canada Pipe Lines, a venture organized by Texas oil magnate Clint Murchison to move 500 million cubic feet of natural gas daily from Alberta to Ontario and Quebec. The loan, according to one report, became "the symbolic repository of all the evils the Conservatives saw in the Liberal policy" of encouraging U.S. investment; the proposal provoked a stormy debate in the House of Commons before finally winning approval.¹⁷

The American public remains largely unaware of the Canadian investment controversy, in part because most of

¹⁵ Royal Commission on Canada's Economic Prospects, *Preliminary Report* (December 1956), p. 89.

¹⁶ See "Newsprint Deficit," *E.R.R.*, Vol. I 1956, pp. 299-312.

¹⁷ *Atlantic Monthly*, November 1956, p. 10.

Editorial Research Reports

the funds involved are in the hands of U.S. corporations rather than individuals. There has been wide public interest, however, in the speculative stocks of Canadian mining ventures. Concern over fraudulent deals led in 1952 to revision of a treaty with Canada to facilitate extradition of persons indicted for securities frauds. When tested two years later, the new treaty proved ineffective for that purpose,¹⁸ but new regulations designed to curb stock racketeering were put into effect by the Province of Quebec in 1955 and by the United States the following year.

PROPOSED RULES OF PRACTICE FOR FOREIGN INVESTORS

Raymond Dupuis, president of the Canadian Chamber of Commerce, told members of the Chamber of Commerce of the United States at their annual meeting in Washington on May 1:

You who invest in Canada need have no fears of nationalization of the industries in which you invest since we are neither Socialists nor nationalists. Foreigners have the same access to our courts as Canadians, and our tax laws apply in the same way to both . . . I believe there is no need to change any of the rules with regard to foreign investment in Canada.

Other Canadians have taken a different view on the latter point. The Royal Commission on Canada's Economic Prospects, headed by Walter Gordon, a Toronto businessman, advanced three proposals for the guidance of foreign-controlled businesses in Canada:

(1) Wherever possible, they should employ Canadians in senior management and technical positions, should retain Canadian engineering and other professional and service personnel, and should do their purchasing of supplies, materials and equipment in this country.

(2) They should publish their financial statements and make full disclosure therein of their Canadian operations.

(3) The larger Canadian subsidiaries should sell an appreciable interest (perhaps 20 per cent to 25 per cent) in their equity stock to Canadian investors and should include on their boards of directors a number of independent Canadians.¹⁹

To promote observance of such rules of practice, particularly the third, the Royal Commission suggested a number of "incentives." Special tax concessions might be granted to Canadian concerns and withheld from foreign companies unless the latter accepted Canadian financial participation.

¹⁸ See "Protection of Investors," *E.R.R.*, Vol. I 1955, p. 47.

¹⁹ Royal Commission on Canada's Economic Prospects, *op. cit.*, p. 90.

Relations With Canada

Canada's provincial governments might require foreign applicants for mining, timber and oil leases to incorporate under Canadian laws and to take in Canadian partners. To prevent loss of control of Canadian chartered banks and life insurance companies, where foreign investment is still small, shares acquired by non-residents in the future might be made non-voting.

None of the commission's proposals carried any threat of nationalization of American-owned private enterprises in Canada. At the same time, the commission's acknowledgment that "many Canadians are worried about such a large measure of economic decision-making being in the hands of non-residents" laid a foundation for possible future adoption of more restrictive policies toward American business in Canada.

FRICTION OVER ST. LAWRENCE AND OTHER WATERWAYS

An investment problem of a different order is involved in the development of waterways under joint American-Canadian control. For more than 30 years, Canada's attempts to obtain U.S. participation in developing the St. Lawrence seaway were thwarted by a sharply divided Congress.²⁰ When Canada threatened to build the waterway alone, Congress in 1954 finally agreed to put up one-third of the cost for a half-interest in the project. "There is no question," writes one Canadian, "that the United States lost good will in Canada by its hard bargaining."²¹

Although both the seaway and its associated power projects are well under way, plenty of room remains for Canadian-American controversy over the tolls to be charged ships using the facility. Those fees have yet to be fixed. Canadians fear that a decision last year to authorize the U.S. Maritime Commission to grant construction and operating subsidies to American ships built for seaway traffic may mean higher tolls for all ships.²² Meanwhile, passage by the House of Representatives on May 22 of a bill to allow diversion into the Chicago drainage canal of consid-

²⁰ See "National Security and the St. Lawrence Project," *E.E.R.*, Vol. I 1951, pp. 181-197.

²¹ W. A. Mackintosh, "The Canadian Economy and Its Competitors," *Foreign Affairs*, October 1955, p. 126. Cost of the seaway, originally estimated at \$300 million, may reach \$480 million before the project is completed in 1959. The House Public Works Committee approved, Apr. 9, a request by President Eisenhower to raise the borrowing authority of the St. Lawrence Seaway Development Corp., which is handling the American share of the construction, from \$105 million to \$140 million.

²² "In applying the subsidy regulation to the St. Lawrence Seaway, the United States sowed seeds of doubt as to its good faith in future operation of the Seaway."—James H. Gray, "A Canadian Looks Us Over," *Atlantic Monthly*, March 1957.

Editorial Research Reports

erably more Lake Michigan water than the Supreme Court authorized in 1930 threatened to irritate relations with Canada on another front. Opposition based on the contention that additional diversion would lower lake and seaway levels has caused President Eisenhower to veto two similar previous bills; the State Department had sought delay on the current bill pending consultation with Canada.

The two governments are now re-examining, for the first time in 50 years, the entire field supervised by the International Joint Commission created by the Boundary Waters Treaty of 1909. When the State Department announced the upcoming review, May 23, 1956, it observed that "The development of the resources of such basins as the St. John, the Columbia, and the Yukon requires . . . the solution of various complicated legal, economic, and engineering questions." For Canada, whose present and future energy requirements involve large amounts of hydroelectric capacity, the economic questions are uppermost.

The Royal Commission, noting that the talks were about to begin, cautioned that Canada's long-term energy interests included "not only the question of exporting electricity for periods long enough to permit the financing of new installations but also our interests in export markets for oil, both crude and refined products, and for gas and its by-products." This was regarded as a gentle hint to Canadian negotiators to make the most of the strong position of Canada athwart the headwaters of the Columbia and the Yukon rivers.

Mutual Interests in International Affairs

AMERICANS are inclined to regard Canada as a perpetual ally in foreign affairs and to let the matter rest. Canadians, on the other hand, rarely lose sight of their position as neighbor to a leading world power. Fifty years ago, Canadian Nationalist Henri Bourassa acknowledged that "There is not a single problem of either internal or external policy that we can settle in Canada without reference to the policy of the United States." Canadian Liberal Lester Pearson reaffirmed that view when he remarked on the "inescapable fact that no country in the world has less

Relations With Canada

chance of isolating itself from the effect of American policies and decisions than Canada."²³

Canada's first opportunity to underscore the significance of her relationship with the United States came shortly after World War I, when the dominion was beginning to assert an independent position in foreign affairs. At an imperial conference in 1921 Canada entered a powerful appeal against renewal of the Anglo-Japanese alliance of 1902, which had been strongly favored by the Lloyd George government in London and by the Australian and New Zealand governments. It has been said that Canada's "courageous stand" was responsible for British agreement to abrogation of the alliance at the following Washington naval limitation conference, and that it "averted a fissure of calamitous possibilities in the relations of the United States and the British Commonwealth."²⁴ Provisions had been added to the treaty of alliance in 1911 to guard against the possibility that it would ever involve Great Britain, Canada, or other dominions in war with the United States, but the British tie with Tokyo had been put into special disfavor in this country by Japan's war and postwar demands on China.

COOPERATION IN THE DEFENSE OF NORTH AMERICA

Although Canada became a member of the League of Nations, her support of the first world peace organization was tempered by the failure of the United States to participate, and both countries lapsed into an isolationist mood. It was not until the approach of World War II, however, that relations between the United States and Canada reached the status of true intimacy.

President Roosevelt and Prime Minister Mackenzie King, meeting aboard a railroad car at Ogdensburg, N. Y., on Aug. 17, 1940, agreed to set up a Permanent Joint Board on Defense, later described by King as "part of the enduring foundation of a new world order, based on friendship and good will."²⁵ This was followed on Apr. 20, 1941, by an agreement to coordinate Canadian and American production programs. The two countries jointly undertook to buttress their Arctic defenses by building air strips,

²³ Lester B. Pearson, "The Development of Canadian Foreign Policy," *Foreign Affairs*, October 1951, p. 26.

²⁴ John A. Stevenson, "Canada, Free and Dependent," *Foreign Affairs*, April 1951, p. 459.

²⁵ See "Canada's War Effort," *E.R.R.*, Vol. I 1941, pp. 311-328.

Editorial Research Reports

weather stations, and the Alcan Highway from Edmonton in Alberta to Fairbanks in Alaska. Major air bases were constructed at Goose Bay, Labrador, and other points.²⁶

Together with the United States, Canada gave strong backing to the United Nations concept from the time that planning for a new world organization started during the war. Later, Canada took a leading role in the negotiations at Washington which led to signing of the North Atlantic Treaty on Apr. 4, 1949. Although the dominion supported the U.N. "police action" in Korea in 1950, the small extent of its initial contribution to the collective forces mobilized to combat Communist aggression in the Far East drew unfavorable comment at home and in the United States.

Postwar collaboration between Canada and the United States in the defense of North America has been carried out under an agreement of Feb. 12, 1947, which set forth principles to govern joint activities and reciprocal use of facilities. The cooperation has included construction of weather stations in Canada's Far North and the building and manning of three continent-wide chains of radar stations; the final and northernmost chain—the \$400 million Distant Early Warning or DEW Line—is now nearing completion. The United States has met most of the cost of these undertakings, but Canada has made important contributions in equipment and manpower.²⁷

Canada, like Great Britain, was in at the start of the war-time atomic energy program and contributed extensive research assistance. Prime Minister Mackenzie King joined President Truman and British Prime Minister Attlee on Nov. 15, 1945, in a declaration recommending creation of a U.N. commission to work out arrangements for outlawing atomic weapons and restricting use of atomic energy to peaceful purposes. Within the limits imposed by American statutory prohibitions on exchange of atomic information; cooperation among the three countries in atomic matters has remained close. Canada is now carrying on a substantial experimental program in nuclear power development. The dominion has proven reserves of 225 million tons of uranium ore—almost four times the proven re-

²⁶ See "Arctic Defense," *E.R.R.*, Vol. II 1946, pp. 503-529.

²⁷ The United States still holds the 99-year lease on bases in Newfoundland, included in the destroyers-bases deal with Great Britain in 1940, although Newfoundland became Canada's tenth province in 1949.

Relations With Canada

serves of the United States. Canada's prominence as an atomic nation has won her a place alongside the four great powers on the United Nations disarmament subcommittee.

POLICY DIFFERENCES OVER COMMUNIST CHINA AND SUEZ

Weighed against the record of friendly cooperation in international and defense matters, the points at issue between Canada and the United States do not loom large. The outstanding case of divided opinion concerns American policy with respect to Formosa and Communist China. On that question the U.S. and Canadian governments have agreed to disagree.

It has been reported that Canada was preparing to follow Britain's lead in extending recognition to the Peiping regime when the outbreak of war in Korea intervened. Prime Minister St. Laurent, returning from an Asian tour in 1954, said of Communist China: "We must be realists. Sooner or later we will be obliged to recognize the government which the people desire." He reportedly pressed the same view, to no avail, at his meeting with President Eisenhower at White Sulphur Springs in March 1956:

Canada does not necessarily consider Formosa a part of China, Pearson told the House of Commons last summer. The dominion would abide by a U.N. decision, he said, if an attack on Formosa were labeled an aggression. But if the offshore islands of Quemoy and Matsu were attacked, the Canadian government would feel "no obligation to intervene in any way because it considered these lands to be a part of continental China."²⁸

Ottawa's doubts about the wisdom of American policy toward Communist China are apparently shared by most Canadians. They are conscious of the possibility that recognition of Communist China would pave the way for profitable trade. For the moment, however, Canada is not making an open issue of recognition.

The dominion's deference to the United States in other foreign policy matters, however, is a subject of open debate. The joint British-French intervention in Suez last autumn created a ticklish situation for the Liberal government. Public sentiment in Canada, which is largely populated by British and French stock, was torn between applauding the action and wishing it had not been taken. When the

²⁸ Department of External Affairs, *Monthly Bulletin*, August 1956, p. 245.

Editorial Research Reports

United States sought a cease-fire resolution in the United Nations, the Canadian delegation abstained from voting; thereafter it pressed its own resolution for creation of a U.N. Emergency Force.

Meanwhile, in the House of Commons in Ottawa, Conservative and other opposition speakers charged that the government had "meekly followed the unrealistic policies" of the United States and had joined in "gratuitous condemnation" of action by Britain and France which was "designed to prevent a major war." Prime Minister St. Laurent, taking exception to the charges, noted that Canada had withheld its support from two U.S. resolutions. Pearson, replying to Conservative Leader Diefenbaker's taunt that Canada had become America's "chore boy," said: "We have performed and will perform no such role. It is bad to be a chore boy of the United States. It is equally bad to be a colonial chore boy."²⁹

The Suez episode may cost the Liberals some votes in the coming election. Its long-range effects on American-Canadian relations are a matter of speculation. Two years ago, a Canadian writer described his country's position as follows:

Canada's entire experience, both colonial and national, has been compared to that of a little man sitting in at a big poker game—if he wins he wins a great deal; if he loses he loses everything. And no matter who else may sit in at the game, there have always been two big players about whom Canada has been almost exclusively concerned.

The bluffs, the wins and the losses between Great Britain and the United States have, ever since 1783, involved not only the prosperity but the security and even the existence of Canada. . . . Out of this experience, Canada has concluded that her continued independence and territorial integrity depend primarily upon the state of feeling existing between Great Britain and the United States.³⁰

As a result of the Suez debacle it is possible that the influence of British policy on Canada may further decline and the influence of American policy increase. Such a development would add to the disproportionate burden which Canadians feel they are carrying in the day-to-day effort to maintain equitable and harmonious relations with the United States.

²⁹ Department of External Affairs, *Monthly Bulletin*, December 1956, p. 342.

³⁰ Kenneth McNaught, "Ottawa and Washington Look at the U. N.," *Foreign Affairs*, July 1955, p. 663.

